

**SCHOOL DISTRICT No. 7A & 7C
Hinsdale, Montana**

**FINANCIAL AND COMPLIANCE
REPORT**

Year ended June 30, 2014

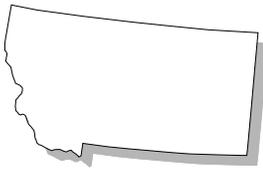
SCHOOL DISTRICT No. 7A & 7C

Hinsdale, Montana

**FINANCIAL AND COMPLIANCE REPORT
Year ended June 30, 2014**

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ROSS R. STALCUP

CERTIFIED PUBLIC ACCOUNTANT, P.C.

INDEPENDENT AUDITORS REPORT

Board of Trustees
School District No. 7A & 7C
Hinsdale, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of School District No. 7A & 7C, Hinsdale, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise School District No. 7A & 7C's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, each major fund, and the aggregate remaining fund information of School District No. 7A & 7C, Hinsdale, Montana, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting Principles generally accepted in the United States of America require that the budgetary comparison information on pages 21-25 be presented to supplement the basic financial statements. Management has omitted the Management Discussion and Analysis which is required by the same standards. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. Our opinion on the basic financial statements is not affected by the missing Management Discussion and Analysis.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise School District No. 7A & 7C’s basic financial statements. The accompanying supplementary information the Supplemental Schedule of School District Enrollment (page 26) is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplementary Schedule of School District Enrollment is required by the State of Montana and are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Schedule of School District Enrollment is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated June 5, 2015 on our consideration of School District No. 7A & 7C’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering School District No. 7A & 7C’s internal control over financial reporting and compliance.

June 5, 2015



Ross R. Stalcup
Certified Public Accountant

**SCHOOL DISTRICT No. 7A & 7C
Hinsdale, Montana**

**STATEMENT OF NET POSITION
June 30, 2014**

	2014
ASSETS	
Current Assets:	
Cash and Investments.	\$1,323,926
Property Taxes Receivable.	8,120
Due from Other Governments.	14,179
Total Current Assets.	1,346,225
Restricted Assets	
Capital Assets.	1,450,500
Less Accumulated Depreciation.	(884,120)
Capital Assets - Net.	566,380
Total Assets.	1,912,605
Deferred Outflow of Resources.	0
Total Assets and Deferred Outflow of Resources.	1,912,605
LIABILITIES:	
Current Liabilities	
Accounts Payable.	22,669
Compensated Absences.	1,322
Total Current Liabilities.	23,991
Non Current Liabilities	
Compensated Absences.	2,643
Total Non Current Liabilities	2,643
Total Liabilities.	26,634
Deferred Inflow of Resources.	0
Total Liabilities and Deferred Inflow of Resources.	26,634
Total Net Position.	1,885,971
NET POSITION	
Net Investment in Capital Assets.	566,380
Restricted.	958,899
Unrestricted.	360,692
Total Net Position.	\$1,885,971

See Notes to Financial Statements

**SCHOOL DISTRICT No. 7A & 7C
Hinsdale, Montana**

**STATEMENT OF ACTIVITIES
for the Year Ended June 30, 2014**

	Expenses	Program Operating Grants	Revenue Charges for Services	Net (Expense) Revenue 2014
GOVERNMENT OPERATIONS				
Instruction:				
Regular Instruction.	\$698,633	\$93,553	\$1,200	(\$603,880)
Special Education.	61,604	15,479		(46,125)
Vocational Education.	44,163	2,942		(41,221)
Adult Education.	8,258			(8,258)
Educational Media.	1,726			(1,726)
Support Services - Students.	1,998			(1,998)
Administration:				
General.	190,718			(190,718)
Building.				0
Business.				0
Operation and Maintenance.	238,548	1,800	1,800	(234,948)
Transportation.	60,643	47,871		(12,772)
Food Services.	95,937	42,735		(53,202)
Student Extracurricular.	59,446			(59,446)
Unallocated Depreciation.	100,330			(100,330)
Totals.	<u>\$1,562,004</u>	<u>\$204,380</u>	<u>\$3,000</u>	<u>(\$1,354,624)</u>
GENERAL REVENUES				
District Property Taxes.				\$554,637
Direct State Aid.				438,140
Oil and Gas.				50,978
Other State Revenue.				192,294
County Sources.				91,383
Interest.				3,918
Other.				6,927
Total General Revenues.				<u>\$1,338,277</u>
CHANGE IN NET POSITION.				(16,347)
NET POSITION				
Beginning of Year.				1,851,968
Prior Period Adjustment.				50,350
Beginning of Year Restated.				<u>1,902,318</u>
End of the Year.				<u><u>\$1,885,971</u></u>

See Notes to Financial Statements

**SCHOOL DISTRICT No. 7A & 7C
Hinsdale, Montana**

**BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014**

	MAJOR FUNDS				NON MAJOR FUNDS	
	General Fund	HS Bus Depreciation Fund	HS Misc Projects Fund	ES Bus Depreciation Fund	Other Governmental Funds	Total
ASSETS:						
Cash and Investments.	\$358,728	\$265,657	\$63,571	\$214,578	\$421,392	\$1,323,926
Property Taxes Receivable.	5,418	416		523	1,129	7,486
Protested Taxes.	447	39		50	98	634
Due from Other Governments.			1,576		12,603	14,179
Total Assets.	364,593	266,112	65,147	215,151	435,222	1,346,225
Deferred Outflows of Resources.	0	0	0	0	0	0
Total Assets and Deferred Outflows of Resources.	364,593	266,112	65,147	215,151	435,222	1,346,225
LIABILITIES:						
Other Current.	16,851		3,549		2,269	22,669
Due to Other Governments.						0
Total Liabilities.	16,851	0	3,549	0	2,269	22,669
Deferred Inflows of Resources.	5,864	455		573	1,228	8,120
Total Liabilities and Deferred Inflows of Resources.	22,715	455	3,549	573	3,497	30,789
FUND BALANCE:						
Reserved.						0
Restricted.		265,657	61,598	214,578	414,810	956,643
Assigned.	36,290				16,915	53,205
Unassigned.	305,588					305,588
Total Fund Balance.	341,878	265,657	61,598	214,578	431,725	1,315,436
Total Liabilities and Fund Balance.	\$364,593	\$266,112	\$65,147	\$215,151	\$435,222	\$1,346,225
RECONCILIATION TO THE STATEMENT OF NET POSITION						
Total fund balance from above.						\$1,315,436
Net capital assets.						566,380
Deferred inflow of resources.						8,120
Less liabilities not reported above:						
Compensated absences.						(3,965)
Net Position.						\$1,885,971

See Notes to Financial Statements

**SCHOOL DISTRICT No. 7A & 7C
Hinsdale, Montana**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
for the Year Ended June 30, 2014**

	MAJOR FUNDS				NON MAJOR FUNDS	Total
	General Fund	HS Bus Depreciation Fund	HS Misc Projects Fund	ES Bus Depreciation Fund	Other Governmental Funds	
REVENUES:						
District Levy.....	\$359,555	\$31,729		\$31,658	\$130,352	\$553,294
Direct State Aid.....	453,619					453,619
Oil and Gas.....	50,978					50,978
Other State Sources.....	144,265		3,217		51,166	198,648
County Sources.....					138,904	138,904
Federal Sources.....			15,521		119,508	135,029
User Fees.....					3,000	3,000
Interest.....	417	261		257	2,981	3,916
Other.....	6,442	215		270		6,927
Total Revenues.....	1,015,276	32,205	18,738	32,185	445,911	1,544,315
EXPENDITURES:						
Current Operations:						
Instruction:						
Regular Instruction.....	508,256		13,839		206,824	728,919
Special Education.....	51,958				9,646	61,604
Vocational Education.....	42,937		1,226			44,163
Adult Education.....	3,601				4,657	8,258
Educational Media.....					1,726	1,726
Support Services Students.....	1,998					1,998
Administration						
General.....	123,944				66,774	190,718
Building.....						0
Business.....						0
Operation and Maintenance.....	178,514				60,034	238,548
Transportation.....	4,786				55,857	60,643
Food Services.....	44,924				51,013	95,937
Student Extracurricular.....	54,146				5,300	59,446
Total Expenditures.....	1,015,064	0	15,065	0	461,831	1,491,960
Excess (Deficiency) of Revenues Over Expenditures And Other Financing.....	212	32,205	3,673	32,185	(15,920)	52,355
FUND BALANCE						
Beginning of the Year.....	341,666	233,452	57,925	182,393	397,295	1,212,731
Prior Period Adjustment.....					50,350	50,350
Beginning of the Year - restated	341,666	233,452	57,925	182,393	447,645	1,263,081
End of the Year.....	\$341,878	\$265,657	\$61,598	\$214,578	\$431,725	\$1,315,436

See Notes to Financial Statements

SCHOOL DISTRICT No. 7A & 7C
Hinsdale, Montana

RECONCILIATION OF THE
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

for the Year Ended June 30, 2014

Change in Fund Balances.	\$52,355
Change in Property Taxes Receivable not included in the Governmental Fund Statements.	1,342
Amounts Reported as Expenditures in the Governmental Fund Statements	
Change in Compensated Absences.	30,286
Expenses on the Statement of Activities not included in the Governmental Fund Statements	
Depreciation.	(100,330)
Change in Net Position.	<u>(\$16,347)</u>

See Notes to Financial Statements

**SCHOOL DISTRICT No. 7A & 7C
Hinsdale, Montana**

**STATEMENT OF FIDUCIARY NET POSITION
AND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PRIVATE PURPOSE TRUST FUNDS
for the Year Ended June 30, 2014**

ASSETS

Cash. \$70,260

NET POSITION
Held in Trust. 70,260

CHANGES IN FIDUCIARY NET POSITION

Additions

Revenue & Transfers from Student Activities. 100,468

Contributions. 4,219

Total Additions 104,687

Deductions

Expenditures & Transfers from Student Activities. 103,031

Scholarships Awarded. 4,500

Total Deductions 107,531

Change in Net Position

NET POSITION

BEGINNING. 123,054

Prior Period Adjustment. (49,950)

BEGINNING - Restated. 73,104

ENDING. \$70,260

See Notes to Financial Statements

**SCHOOL DISTRICT No. 7A & 7C
Hinsdale, Montana**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The School District complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. For enterprise funds GASB Statement Nos. 20 and 34 provide the District the option of electing to apply FASB pronouncements issued after November 30, 1989. The District has elected not to apply those pronouncements.

A. Reporting Entity

All operations of School District No. 7A & 7C, Hinsdale, Montana are controlled by a Board of Trustees, elected in School-wide elections, and responsible for all of the School's activities. The financial statements include all of the District's operations controlled by the Board of Trustees. Based on the criteria for determining the reporting entity (separate legal entity and fiscal or financial dependency on other governments), the District is considered to be an independent reporting entity and has no component units.

B. Basis of Presentation and Basis of Accounting

Government-wide Statements - The statement of net position and the statement of activities show information about the overall financial position and activities of the District with the exception of the student activity fund.

These statements are reported using the economic resources measurement focus and the accrual basis of accounting. The activities of the District are generally financed through property taxes, state equalization funding, and federal and state grants. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. On the accrual basis, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which eligibility requirements have been met. Adjustments have been made to eliminate the double recording of internal activities.

The Statement of Activities present comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function. The District does not charge indirect expenses to programs or functions. Program revenues include fees for services (primarily school lunch and breakfast charges) and grants and contributions that are restricted to a particular program. Revenues that are not classified as program revenues, including all property taxes, are presented as general revenues.

Fund Financial Statements - These statements provide information about the District's funds, including a separate statement for the District's fiduciary fund (the student activity fund). The emphasis of fund financial statements is on major governmental funds. Each major fund is displayed in a separate column. All of the remaining funds are aggregated and reported in a single column as other governmental funds.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. State and other governmental revenues applicable to the current fiscal year and collected soon after year-end are recognized as revenue.

Most current property taxes receivable are delinquent at June 30 and amounts collected soon after year-end are not significant. Deferred inflow of resources are recorded for these receivables. Property tax levies for the subsequent fiscal year are recorded as property tax receivables because they become a lien on real property as of January 1. Because these taxes are levied for the subsequent fiscal year, they are offset by deferred inflows.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and payments for compensated absences which are recognized as expenditures when paid. General capital asset acquisitions under capital leases are reported as other financial sources.

Under the terms of the District's grant agreements, certain programs are funded by specific cost-reimbursement funds first to finance such programs with remaining costs paid for with general revenues.

Generally accepted accounting principles require that the general fund be reported as a major fund and that all other governmental funds whose assets & deferred inflow of resources, liabilities & deferred outflow of resources, revenues, or expenditures exceed 10% or more of the total for all governmental funds also be reported as major funds.

Accordingly, the District reports the following major governmental funds:

General fund

This fund is the District's primary operating fund and it accounts for all financial resources of the District except those required to be accounted for in other funds.

High School Bus Depreciation fund

This fund accounts for revenues from a District levy on taxable property to build a reserve for replacing school buses or radios used in the transportation program.

High School Miscellaneous Projects fund

This fund is for the purpose of accounting for local, and state or federal grants and reimbursements. Donations that allow the expenditure of both principal and interest for support of District programs are deposited in this fund.

Elementary Bus Depreciation fund

This fund accounts for revenues from a District levy on taxable property to build a reserve for replacing school buses or radios used in the transportation program.

The District also has a student activity fund accounting for the extracurricular activities of its students. This fund is a private-purpose trust fund.

The general policy is to spend resources in the following order: Restricted, Committed, Assigned, Unassigned assuming that there are different classifications within a particular fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Cash and Investments

State law permits investment of District funds in insured savings or time deposits, bank repurchase agreements, direct obligations of the U.S. Government, and the State's unified investment program. Except for the private purpose trust fund, all cash and investments are held by the County Treasurer. Investments are stated at cost.

D. Inventories

Inventories are considered to be immaterial and are not recorded.

E. Property Taxes

Property taxes receivable at June 30 consist primarily of delinquent and protested property taxes from the current and prior year levies. Property taxes receivable are offset by deferred inflow of resources in the fund financial statements. Approximately 95% of protested taxes are collected. The District does not record an allowance for uncollectible taxes because it is considered to be immaterial.

Property taxes are levied in August of each fiscal year, based on assessments as of the prior January 1. Real property taxes are usually billed in October and are payable 50% on November 30 and 50% on May 31. Property taxes are maintained and collected by the County Treasurer.

F. Capital Assets

Capital assets are carried at actual or estimated historical cost based on appraisals. Major additions and betterments with a cost in excess of \$5,000 are recorded as additions to fixed assets. Repair and maintenance costs are not capitalized. Depreciation is computed using the straight-line method and the estimated useful lives are as follows:

Buildings and improvements.	20-80 years
Equipment.	6-20 years

G. Compensated Absences

Vacation leave, within certain limitations, may be payable to administrative and classified (non-teaching) employees on termination. Sick leave is accumulated for classified employees at the rate of 12 working days for each year of service. Part-time classified employees are entitled to prorated benefits upon fulfillment of the qualifying period of time. Classified employees are eligible for compensation at one fourth of the accumulated sick leave amount on termination.

Upon termination, certified employees (teachers) are paid pursuant to the master agreement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Fund Equity

See Note 7.

I. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Examples are depreciation and the current portion of compensated absences.

J. Deferred Inflow/Outflow of Resources

A *deferred outflow* of resources is defined as a consumption of net position by the government that is applicable to a future reporting period and a *deferred inflow* of resources as an acquisition of net position by the government that is applicable to a future reporting period. A deferred outflow of resources has a positive effect on net position, similar to assets, and a deferred inflow of resources has a negative effect on net position, similar to liabilities.

2. CASH AND INVESTMENTS

District cash and investments are held by the Valley County Treasurer and invested at the direction of the District.

Student activity funds are deposited in FDIC insured, interest bearing, checking accounts.

The District does not have policies regarding credit risk, interest rate risk, or custodial credit risk, but relies on State law for allowable investments.

Notes to Financial Statements (continued)

3. CAPITAL ASSETS

Capital asset activity during 2014 was as follows:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Cost of assets:				
Land	10,613			\$10,613
Buildings and Improvements	717,096			717,096
Equipment	722,791			722,791
Construction in Progress				0
Total	<u>1,450,500</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,450,500</u>
Accumulated depreciation:				
Land Improvements				\$0
Buildings and Improvements	(290,676)		(13,633)	(304,309)
Equipment	(493,114)		(86,697)	(579,811)
Total	<u>(783,790)</u>	<u>0</u>	<u>(100,330)</u>	<u>(884,120)</u>
Capital Assets, Net	<u>666,710</u>	<u>\$0</u>	<u>(\$100,330)</u>	<u>\$566,380</u>

Depreciation was not allocated.

4. RETIREMENT PLANS

The District participates in two statewide, mandatory, cost-sharing, multiple employer, defined benefit retirement plans which cover all employees, except certain substitute teachers and part-time, non-teaching employees. The Montana Teachers' Retirement System (MTRS) covers teaching employees, including principals and superintendents. The Montana Public Employees' Retirement System (MPERS) covers other non-teaching employees. The plans are established by State law and are administered by the State of Montana. The plans provide retirement, disability, and death benefits to plan member and beneficiaries.

Contribution rates for both plans are required and determined by State law. The state of Montana makes on behalf payments for the District. The contribution rates, expressed as a percentage of covered payroll, were as follows:

	<u>Employer</u>	<u>Employee</u>	<u>State</u>	<u>Total</u>
TRS	8.47%	8.15%	2.11%	18.73%
PERS	7.80%	7.90%	0.37%	16.07%

The State on behalf payment is considered immaterial and has not been included in the financial statements.

The amounts contributed to TRS and PERS during the years ended June 30, 2012, 2013, and 2014 were equal to the required contribution for each year. The amounts contributed by both the District and its employees (including additional voluntary contributions by employees as permitted by State law) were as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
TRS	\$96,004	\$74,647	\$68,869
PERS	32,545	34,604	32,580
Total	<u>\$128,549</u>	<u>\$109,251</u>	<u>\$101,449</u>

Both plans issue a publicly available financial report that includes financial statements and required supplementary information for the plans. Those reports may be obtained from the following:

MT Teachers Retirement System
 P.O. Box 200139
 1500 Sixth Avenue
 Helena, Montana 59620-0139
 Telephone (406) 444-3134

MT Public Employees Retirement System
 P.O. Box 200131
 1712 Ninth Avenue
 Helena, Montana 59620-0131
 Telephone (406) 444-3154

Notes to Financial Statements (continued)

5. LONG TERM DEBT

	June 30 2013	Payment	Additions	June 30 2014	Current
Compensated Absences	34,251	(30,286)		3,965	1,322

6. OTHER POST EMPLOYMENT BENEFITS

Plan Description

Montana Law (MCA 2-18-704) allows retirees meeting certain requirements to continue to participate in the District's health insurance to the extent that the retirees are allowed to purchase health insurance through the District. No cost has been estimated for the above benefits, although there is the probability that there are higher medical costs for retirees which would result in higher premium rates for the plan.

Per GASB Statement No. 45 this gives rise to an implicit rate subsidy and an actuarially accrued liability although, under current law, the District will not be required to fund the liability or otherwise incur a cash cost.

The potential cost is considered immaterial to the District's financial statements. There are no retired employees using this benefit.

7. FUND BALANCE/NET POSITION DISCLOSURES

Governmental Accounting Standards Board (GASB) Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* was issued to enhance the usefulness of Fund Balance information and clarify existing governmental fund type definitions. To that end GASB 54 established the following fund balance classifications in the fund statements:

Non-spendable

Includes fund balances that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. Example- inventories.

Restricted

Includes fund balances that are constrained for specific purposes which are externally imposed by providers such as creditors, or amounts constrained due to law, constitutional provisions or enabling legislation.

Committed

Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year-end. An example is a resolution by the Board.

Assigned

Includes fund balance amounts that are intended to be used for a specific purpose that are neither considered restricted or committed. A designee can be authorized to assign fund balance. The District Clerk has been designated to assign fund balance.

Unassigned

Unassigned fund balance includes positive fund balance within the General Fund which has not been classified within the above mentioned classifications. Negative fund balances in other governmental will be reported as unassigned.

Additionally the statement addresses fund classification to the extent that the fund type is dependent on proceeds of specific revenue sources which are restricted or committed to expenditure in accordance with a specific purpose.

Hinsdale School District has a general policy that fund balance is restricted for the statutory purpose of a fund, or in the case of the Miscellaneous Fund to the purpose of the individual grants.

The general policy also applies to fund classification.

Additionally the District has a general policy that resources will be spent in the following order: Restricted, Committed, Assigned, Unassigned assuming that there are different classifications within a particular fund.

Notes to Financial Statements (continued)

7. **FUND BALANCE/NET POSITION DISCLOSURES** (continued)

Fund Balance Classification is as follows:

	MAJOR FUNDS			NON-MAJOR		Total
	General Fund	HS Bus Depreciation Fund	HS Misc Projects Fund	ES Bus Depreciation Fund	Other Government Funds	
Restricted:						
Instruction			61,598		75,894	137,492
Transportation					55,015	55,015
Bus Replacement		265,657		214,578		480,235
Operation and Maintenance					3,583	3,583
Retirement Benefits					26,600	26,600
Technology Acquisition					101,186	101,186
Adult Education					46,077	46,077
School Food Program					3,000	3,000
Debt Service					52,930	52,930
Scholarships					50,525	50,525
	0	265,657	61,598	214,578	414,810	956,643
Assigned:						
Instruction	15,551					15,551
Administration	13,532					13,532
Operation and Maintenance	3,042				16,915	19,957
School Food	4,165					4,165
	36,290	0	0	0	16,915	53,205
Unassigned:						
	305,588	0	0	0	0	305,588
Total Fund Balance	341,878	265,657	61,598	214,578	431,725	1,315,436

In the government wide statements fund equity is classified as net position and displayed in three components:

Invested in capital assets, net of related debt. Composed of capital assets, net of accumulated depreciation and reduced by the outstanding balance of any debt incurred that is attributable to the acquisition thereof.

Restricted. Further classified as expendable and non-expendable, generally the net position resulting from property taxes levied for a statutory purpose.

Unrestricted. All other assets.

Net Position Classifications:

Restricted	
Non expendable	\$0
Expendable	958,899
Invested in Capital Assets	566,380
Unrestricted	360,692
	<u>\$1,885,971</u>

A reconciliation of Fund Balance by classification to restricted net position by classification follows:

	Deferred Inflow of Resources	Debt	Capital Assets	Adjustments	Net Position
Fund Balances					
Restricted	956,643	2,256			958,899
Invest Capital Assets			566,380		566,380
Assigned	53,205			(53,205)	0
Unrestricted		5,864	(3,965)	358,793	360,692
Unassigned	305,588			(305,588)	0
Total	\$1,315,436	\$8,120	(\$3,965)	\$566,380	\$0
					\$1,885,971

7. FUND BALANCE/NET POSITION DISCLOSURES (continued)

Financial Position

Purpose of Restriction

Retirement	\$61,598
Instruction	137,492
Debt Service	52,930
Bus Replacement	481,263
Transportation	55,626
Technology	101,584
Other	68,406
	<u>\$958,899</u>

8. RISK MANAGEMENT

The District faces a number of risks including:

- a) loss or damage to property
- b) general liability
- c) workers compensation
- d) employee medical insurance

Commercial insurance policies are purchased for loss or damage to property, general liability, and health insurance.

The District participates in a statewide public risk pool, the Montana Schools Group Workers Compensation Risk Retention Program (WCRRP), for workers compensation coverage. Approximately 200 schools participate in WCRRP. All school participants in this pool are jointly and severally liable for the liabilities of this public risk pool.

The pool issues audited financial statements. Information about the amount of claim liabilities, changes in claims liabilities, amount of claims paid, operating results and other information is available at:

WCRRP
1 South Montana Avenue
Helena, Montana 59601

9. SUBSEQUENT EVENT

Subsequent to year end the District contracted for roof repairs, and incurred an InterCap Loan to pay for them.

10. PRIOR PERIOD ADJUSTMENTS

Reporting the permanent fund was properly reclassified as governmental pursuant to the requirements of GASB 34; \$50,350 and an error was corrected in a fiduciary fund \$(400).

**SCHOOL DISTRICT No. 7A & 7C
Hinsdale, Montana**

**SCHEDULE OF REVENUES, EXPENDITURES AND ENCUMBRANCES
BUDGET AND ACTUAL
ELEMENTARY GENERAL FUND
Year Ended June 30, 2014**

	Original Budget	Amended & Final Budget	Actual Amounts Budgetary Basis
REVENUES			
District Levy	\$207,425	\$207,425	\$205,449
Direct State Aid	202,187	202,187	202,187
State Oil & Gas	10,500	10,500	10,500
Other State Sources	81,033	81,033	81,033
County Sources			
Federal Sources			
Interest	491	491	327
Other	1,636	1,636	1,747
Total Revenues	503,272	503,272	501,243
Total Expenditures	540,977	540,977	521,590
Excess of Revenues over Expenditures	(37,705)	(37,705)	(20,347)
Net Change in Fund Balance			(20,347)

See notes to required supplemental information

**SCHOOL DISTRICT No. 7A & 7C
Hinsdale, Montana**

**SCHEDULE OF REVENUES, EXPENDITURES AND ENCUMBRANCES
BUDGET AND ACTUAL
HIGH SCHOOL GENERAL FUND
Year Ended June 30, 2014**

	Original Budget	Amended & Final Budget	Actual Amounts Budgetary Basis
REVENUES			
District Levy	\$155,236	\$155,236	\$154,106
Direct State Aid	251,432	251,432	251,432
State Oil & Gas	20,000	20,000	20,000
Other State Sources	56,945	56,945	56,945
County Sources			
Federal Sources			
Interest	165	165	90
Other	1,073	1,073	1,039
Total Revenues	484,851	484,851	483,612
Total Expenditures	529,112	529,112	527,165
Excess of Revenues over Expenditures	(44,261)	(44,261)	(43,553)
Net Change in Fund Balance			(43,553)

See notes to required supplemental information

**SCHOOL DISTRICT No. 7A & 7C
Hinsdale, Montana**

**SCHEDULE OF REVENUES, EXPENDITURES AND ENCUMBRANCES
BUDGET AND ACTUAL
HIGH SCHOOL BUS DEPRECIATION
Year Ended June 30, 2014**

	Original Budget	Amended & Final Budget	Actual Amounts Budgetary Basis
REVENUES			
District Levy	\$31,919	\$31,919	\$31,279
Direct State Aid			
Other State Sources			
County Sources			
Federal Sources			
Interest			
Other			
Total Revenues & Transfers	31,919	31,919	31,279
Total Expenditures & Transfers	265,370		
Excess of Revenues over Expenditures	(233,451)	31,919	31,279
Net Change in Fund Balance			31,279

See notes to required supplemental information

**SCHOOL DISTRICT No. 7A & 7C
Hinsdale, Montana**

**SCHEDULE OF REVENUES, EXPENDITURES AND ENCUMBRANCES
BUDGET AND ACTUAL
ELEMENTARY BUS DEPRECIATION FUND
Year Ended June 30, 2014**

	Original Budget	Amended & Final Budget	Actual Amounts Budgetary Basis
REVENUES			
District Levy	\$31,918	\$31,918	\$31,658
Direct State Aid			
Other State Sources			
County Sources			
Federal Sources			
Interest			
Other			259
Transfers			270
Total Revenues & Transfers	31,918	31,918	32,187
Total Expenditures & Transfers	214,310	214,310	
Excess of Revenues over Expenditures	(182,392)	(182,392)	32,187
Net Change in Fund Balance			32,187

See notes to required supplemental information

**SCHOOL DISTRICT No. 7A & 7C
Hinsdale, Montana**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2014**

Budgets:

Budgets are adopted by funds defined as budgeted funds as defined in state law (MCA 20-9-201).

The budgets must be adopted on or before August 15th of each year, but may be continued day to day until the 4th Monday in August. If taxable value information is not available. (MCA 20-9-131). Appropriations (budgetary spending authority) lapse at year end except for construction in progress and obligations for the purchase of personal property ordered but not paid for during the current year (MCA 20-9-209). Because Montana schools have appropriations which lapse at year end encumbrances are allowed as a means of budgetary control (NCGA Statement 1 Para 91). Encumbrances do not represent expenditures for the period for generally accepted accounting principles. None were included in the financial statements.

State law requires with certain exceptions only that total actual expenditures not exceed total budgeted expenditures. There were no amendments to the budgets, the amounts shown above are the original, amended, and final budgeted amounts.

The High School and Elementary General Funds are combined for reporting purposes, together with High School and Elementary Flexibility Funds.

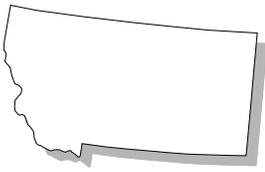
GAAP based expenditures differ from budgetary basis by the change in encumbrances of \$36,008.

**DISTRICT No. 7A & 7C
Hinsdale, Montana**

SUPPLEMENTARY SCHEDULE OF SCHOOL DISTRICT ENROLLMENT

Year Ended June 30, 2014

	District Records	Fall Enrollment Report	District Records	Winter Enrollment Report	District Records	Spring Enrollment Report
Kindergarten	7	7	7	7	7	7
Grades 1 - 6	37	37	37	37	37	37
Grades 7 - 8	11	11	11	11	11	11
Grades 9 -12	26	26	26	26	25	25
Total	81	81	81	81	80	80



ROSS R. STALCUP

CERTIFIED PUBLIC ACCOUNTANT, P.C.

**INDEPENDENT AUDITORS REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees
School District No. 7A & 7C
Hinsdale, Montana

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of School District No. 7A & 7C, Hinsdale, Montana as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise School District No. 7A & 7C's basic financial statements, and have issued our report thereon dated June 5, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered School District No. 7A & 7C's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of School District No. 7A & 7C's internal control. Accordingly, we do not express an opinion on the effectiveness of School District No. 7A & 7C's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses. (Findings No. 2014-01, 2014-02, 2014-03)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether School District No. 7A & 7C's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* in the accompanying Schedule of Findings and Questioned Costs (Finding No. 2014-03).

School District No. 7A & 7C's Response to Findings

School District No. 7A & 7C's response to the findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. School District No. 7A & 7C's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

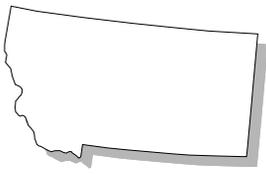
Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

June 5, 2015



Ross R. Stalcup
Certified Public Accountant



ROSS R. STALCUP

CERTIFIED PUBLIC ACCOUNTANT, P.C.
INDEPENDENT AUDITORS REPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Board of Trustees
School District No. 7A & 7C
Hinsdale, Montana

The following is a Schedule of Findings and Questioned Costs which arose during the audit of year ended June 30, 2014.

Current Year
INTERNAL CONTROL FINDINGS

MATERIAL WEAKNESS
2014(-01) Segregation of Duties

- Criteria: Segregation of duties is essential for internal control.
- Condition: The District does not have ideal segregation of duties.
- Context: The District has one employee assigned to the accounting function.
- Effect: Internal control is not optimal.
- Cause: The small staff of the District does not allow for ideal segregation of duties.
- Recommendation: We recommend the Board direct the Superintendent to take an active role so that compensating controls exist and that the Board monitor the District's activities.

MATERIAL WEAKNESS
2014(-02) Accounting Records

- Criteria: The District is required to maintain accounting records, to perform certain reconciliations on a timely basis, to report to the Board, and generally keep accurate accounting records
- Condition: The District did not reconcile monthly with the County Treasurer, did not make deposits timely and generally did not keep accurate accounting records.
- Context: The District had to bring in an external accounting service provider to finish the year and perform remedial action on accounting records.
- Effect: A lack of timely and accurate reporting.
The District had to engage an outside professional.
- Cause: Partially employee turnover, partially unknown.
- Recommendation: The District completed remedial action. No comment required.

**MATERIAL WEAKNESS
INTERNAL CONTROL AND COMPLIANCE FINDING**

2014(-03) Student Extracurricular

- Criteria: The District is required to maintain records of activities of student groups.
- Condition: Records of student groups were not available. Consequently, the information was not included in the financial statements.
- Context: The student activity records were not kept for the entire year. March through June records were re-constructed by the District, but not in the detail necessary to account for transactions by group.
- Effect: The District financial statements do not include a supplementary schedule of extracurricular fund revenues, expenditures and changes in net position. Which is required by the Montana Standard Audit Contract.
- Lack of accurate reporting.
- Cause: Employee turnover
- Recommendation: The District completed remedial action. No comment required.

Prior Year

1. Segregation of Duties

Recurring see 2014-01

June 5, 2015



Ross R. Stalcup
Certified Public Accountant